

**QUARTERLY TASK
ORDER PROGRESS AND
COST REPORT**

**JULY TO SEPTEMBER
2001**

**CROATIA LOCAL
GOVERNMENT REFORM
PROJECT**

Prepared for



Croatia Local Government Assistance Initiative
U.S. Agency for International Development
Contract No. EEU-I-99-00015-00, Task Order 808

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CROATIA LOCAL GOVERNMENT REFORM PROJECT

Task Order No.: EEU-I-00-99-00015-00, TO No.: 808

Date of Issuance: June 2, 2000

Task Order Description

The purpose of this Task Order is to implement a Local Government Project that will work toward decentralization, transparency, and efficiency among municipal administrations. As required by Section F.5 of the Local Government Contract, below is a description of progress during the last quarter.

This report is intended to provide the United States Agency for International Development/Croatia (USAID) with an overview of the events that took place during the quarter (July, August, and September) under each Local Government Reform Project (LGRP) component.

This report is structured to include a section on *major accomplishments* ordered by substantive topics for each project component. The report includes a section that identifies *next steps* for each LGRP component. The LGRP technical staff include eight full time local experts (Marina Kristek, finance expert, Miljenko Smit, information management specialist, Visnja Mrakovcic, economic development specialist, Hrvoje Bertovic, asset management specialist, Damir Cvijanovic, finance and credit market specialist). In addition, about 16 part time (local and expat drawn from the Urban Institute (UI) or its U.S. based subcontractors Training Resources Group (TRG) and Institute of Public Administration) consultants contribute toward the project's goals as well as local firms subcontracted to work on the project. The LGRP's Chief of Party (CoP) is Maris Mikelsons and his deputy is Kzryzstof Chmura.

Amount Obligated Under Task Order: \$3,374,671

Total Potential Task Order Amount: \$3,374,671

Dollars Expended to-date: \$1,205,462

Progress of Major Activities

Highlights

This period of 2001 saw an acceleration of Local Government Reform Project (LGRP) activities in all areas of work. Though the summer holidays did limit direct contact with local government counterparts in the demonstration sites, work continued on a variety of activities in the Zagreb office of the LGRP as well as demonstration sites.

- LGRP information management team worked to implement a comprehensive Information Management System in the cities of Osijek and Crikvenica (about 90 percent complete in each city) by installing new servers and software developed for the system.
- During the reporting period, Marc Roux (LGRP consultant from Switzerland) began work to launch the LGRP World Wide Web (WWW) home page and draft the first issue of the LGRP Newsletter. In line with this work, the LGRP prepared a brochure (description of the project) to distribute to all local governments in Croatia and affiliated institutions.
- As part of UI's technical assistance in local government asset management, the LGRP asset management team began to implementation of the recommendations found in the report on the property of the City of Varazdin. The newly elected Mayor of the City appointed an asset management task force comprised of city officials.
- The LGRP economic development team started the process to identify critical issues and form subgroups of the task forces in Rijeka and Varazdin to implement action plans related to these critical issues.
- Working with the City of Rijeka, the LGRP public participation team began the first phase of implementing a public opinion survey. The first phase of this collaboration resulted in the draft questionnaire that will be administered to about 400 residents of the City.
- The LGRP local government finance team made progress to convert the financial analysis model from an Excel software platform to Access software. The team also conducted two financial management seminars; one in Zagreb for members of the finance Task Forces in each demonstration site along with representatives of the Croatian Bank for Reconstruction and Development (HBOR) and Zagrebacka banka and another seminar in Crikvenica for Task Force members alone on the topic of budget.
- The LGRP also pursued several national level objectives by linking its work in demonstration sites to national level institutions. Under the economic development



component, LGRP staff kept the Ministry of Economy informed of its work in the area of local economic development. Additionally, the LGRP team maintained its working relationship with the Zagreb-based Economic Institute to share information on models of creating an economic development strategic plan.

- As part of the asset management component, the Ministry of Public Works asked the LGRP to identify a member of its staff to serve on a Government of Croatia Task Force to draft a new Law on Communal Economy.
- The LGRP asset management team submitted comments to City of Varazdin on its draft asset management ordinance (statute). The City plans to revise the ordinance to take into consideration LGRP comments and submit the ordinance to City Council during the fall.
- The LGRP's work in the area of local government finance was advanced by its collaboration with the MoF to provide advice on the establishment of new Chart of Accounts that conforms to local governments needs. Additionally, the LGRP translated into Croatian all the descriptions of the new functional codes associated with the Chart of Accounts. These are to be used as part of the financial analysis model user manuals.
- The LGRP mandate to build the capacity of the Association of Cities and Municipalities was advanced by the LGRP agreeing to collaborate with the Association on the issuance of a Local Government Handbook and to conduct a series of seminars for newly elected local government officials. The LGRP explored ways of collaborating with the Croatian Law Center "Decentralization Project" in the areas of finance and support to the Association of Cities and Municipalities to issue the Handbook.
- The LGRP continues to provide the Government of Croatia with policy advice related to local government reform. Through continual contract with the Ministry of Justice/Administration/Local Government, the LGRP was asked to provide comments on two new laws that regulate local government civil servants—*Law on Local Civil Servants and Laborers* and *Law on Obligations and Rights of Public Officials in Local and Regional Self-Government*. This review addressed the laws' mechanisms to support transparency and prevent corruption in the public sector in light of USAID/Croatia's anti-corruption initiative.
- The Ministry of Public Works and Reconstruction asked the LGRP to make comments to draft amendments to the Law on Communal Economy. Subsequent to the submission of LGRP comments to the amendments, the Ministry of Public Works decided to issue a new Law on Communal Economy as a direct result of these comments.

- The USAID-sponsored Fiscal Reform Project invited the LGRP to attend a series of MoF sponsored workshops for local government officials on the topic of fiscal decentralization to better gauge the decentralization process. In this regard, the LGRP finance team worked with the Cities of Rijeka and Crikvenica to assist them with data collection, organization and input to the financial analysis model for newly devolved responsibilities related to primary education facilities.
- During August, USAID/Croatia approved a proposal for the LGRP to conduct a study tour (through World Learning) for the members of the finance management task forces in each demonstration site. The study tour will take place in Poland (two cities) and focus on capital improvements planning process as well as asset management practices.
- The LGRP assembled a team of experts to draft a study on territorial reform (at the request of the Local Government Advisory Committee). The study team is composed of Juliana Pigey, Inga Vilka, Jelena Ladovac, Damir Cvijanovic and Maris Mikelsons. Work on the initial draft of the study began in September.
- During September the LGRP collaborated with the International Monetary Fund (IMF) to provide information to the Government of Croatia on the decentralization process.

Note—The IMF is interested in the decentralization process in relation to fiscal transfers from the central to local governments. The IMF was interested to learn the early experiences of local governments in respect to recent decentralization measures (transfer of building maintenance for primary education to 32 cities and counties). In this regard, the LGRP organized a meeting between the IMF representatives and representatives of the Association of Cities and Municipalities to discuss decentralization from the viewpoint of local governments. The IMF subsequent to this meeting submitted a (confidential) report on their findings to the MoF/Government of Croatia.

Project Management—UI continues the process of re-engineering the LGRP in-line with a revised scope of work. In so doing, a new staff plan was implemented to include the hiring of additional part-time (local and expatriate) consultants, local subcontractors, and Central and Eastern Europe (CEE) consultants.

USAID confirmed Krzysztof Chmura as the new Deputy CoP for the project. He arrived in Zagreb, Croatia in September to assume his new duties. Krzysztof will focus his work on the public participation and economic development components of the project and contribute toward the dissemination/replication strategy implementation.

Marc Roux, an information management specialist, was added to the roster of LGRP staff. He comes by way of a Swiss non-government organization (NGO) that offers free labor services of unemployed Swiss nationals to deserving NGOs in developing countries. His duties



at the LGRP will be to develop a WWW home page for the project and create a process to launch a LGRP Newsletter on a regular basis with updated information.

Visnja Mrakovcic, LGRP economic development and public participation specialist will revert to working only part-time for the project. The LGRP plans to relocate Miljenko Smit, LGRP information management specialist, to Zagreb to in part assume the duties of Visnja Mrakovcic in the area of public participation and to work on the dissemination/replication phase of the project during 2002.

USAID/Croatia issued a revised scope of work (along with an increase of the original obligated funds) for the LGRP during September. UI submitted a revised budget in response to the revised scope of work.

USAID issued a draft set of intermediate results (IRs) for the project. The CoP responded to these IRs by submitting comments to USAID that address expected results for each LGRP component. During September, a USAID/Washington technical advisor to the project discussed the IRs and the projects proposed dissemination/replication strategy with the CoP and his deputy.

The results of the Local Government elections (that took place in May) affected the implementation of technical assistance in demonstration sites. Indeed, by the end of the quarter, the determination of who will head local government departments in some of the demonstration sites had not been made, making LGRP work with local counterparts difficult and more time consuming.

The LGRP has received numerous requests from local governments (Samabor, Rovinj, Porec, County of Istria in the previous quarter and Zagreb during this quarter) to participate in the project. To date, no decision has been made to add another local government to the roster of four demonstration sites.

Description of LGRP Activities by Component

Information Management—Miljenko Smit, LGRP information management specialist, began the process to implement the information management system in both Osijek and Crikvenica. The LGRP information management team explored methods to incorporate a “one stop shop” concept as part of the information management system. Additionally, the work under this component has promoted the community of Crikvenica to form a new NGO to maintain and update the information management system in this City. Additionally, LGRP team has learned that the “Center for Peace,” a local NGO in Osijek, offers their database as part of the information management system and seeks a new computer to implement the system for its Osijek office.

Zoran Borovics, LGRP computer specialist, began work to install the servers necessary to upgrade the existing electronic infrastructure in Osijek and Crikvenica. The new servers will accommodate the information management system demands in these cities and be the catalyst for

the newly created internal Intranet system. The installation of the Intranet system in Usijek and Crikvenica should be completed by the end of October.

Miljenko Smit and Zoron Borovics, LGRP information management specialists, continued assistance to the City of Crikvenica in establishing a comprehensive information management system. The team finalized work with two Task Forces; one for information management and the other for developing the information management system to serve economic development potential of the area. The organization structure of the information system was determined through work with these Task Forces. The computing environment in Crikvenica will be upgraded by the LGRP with the addition of new hardware (server), as outlined above, and software to meet the demands of the information management system.

Economic Development—Pat Dusenbury, LGRP lead economic development specialist, along with her team (Kzryzstof Chmura, Visnja Mrakovic and Oliver Travas), continued to assist the community of Rijeka and Varazdin to create an economic development strategic plan. During the reporting period, Pat Dusenbury traveled to Croatia to further the work under this component.

During September, the LGRP held meetings of working groups developing action plans around the critical issues in Rijeka and organized a Task Force meeting in Varazdin to select critical issues and begin the working group development of action plans. Concurrent with work in the demonstration cities is the modification of the LGRP planning model, reflecting lessons learned, and preparation of tools for the LGRP produced economic development workbook, that will be used for LGRP training during the second year dissemination/replication process. The LGRP coordination with relevant efforts—both national and other donor programs—is an on-going activity.

Rijeka—The economic development Task Force in Rijeka was divided into working subgroups after defining four critical (economic development) issues. Each subgroup is in charge of identifying interventions, developing action plans to implement interventions, and preparing Log Frames for each intervention. The Rijeka Task Force identified the following critical issues:

- How to create a good business environment?

Projects:

- Create a guarantee fund for entrepreneurs
 - Create an information center for investors
 - Support city initiatives in economic development
- How to balance human resources with needs of the local economy



Projects:

- Human resource survey
 - Labor mobility center project
 - Develop curriculum for secondary schools
- How to develop an information infrastructure in Rijeka?

Projects:

- Increase awareness of information technology
 - Transparency of public information
- How to deal with road traffic in Rijeka?

Projects:

- Lobby for construction of D-404 and D-403 road construction
- Coordinate construction of the passenger terminals (bus, rail, and naval)
- Public transportation and garage parking

The working groups of the economic development task forces in Rijeka met in July and brainstormed potential topics. The results of this process made it clear that (1) the LGRP proposed methodology to introduce the Log Frame did not result in the use of that approach by the working groups and (2) the workplan development would benefit from more LGRP staff involvement. As a result, the LGRP is modifying the process to simply explain and introduce the Log Frame model and to include facilitation for working group meetings.

The *Information Infrastructure* and *Production and Services* working groups of the Task Force both met and began using the Log Frame in a facilitated process to develop action plans. This approach worked well. Neither the *Traffic Infrastructure* nor the *Human Resources* working group had enough members present to hold a meeting.

Due to uncertainty about top-level staff positions in the new administration, city staff could not commit to participate in working group meetings until October. Because information about city projects is a critical input to action plan development, meetings for the four working groups were postponed until October. No specific date will be chosen until the 2002 economic development program for the city has been adopted (The program was adopted September 10). Meanwhile, the working groups are being asked to identify additional members.

Varazdin—After the economic development task force meeting of June, the LGRP team summarized the critical (economic development) issues that were the outcome of the workshop. This work resulted in the identification of four critical issues in the areas of business environment, sustainable development, ecology, and human resources. Simultaneously, the LGRP team maintained contact with the Chamber of Economy to prepare the business survey that was conducted by their staff. The results of the survey made it easier for the Task Force to narrow the choice of critical issues.

The Task Force meeting planned for early September was not held due to the absence of Mr. Cesarec, the President of the Chamber of Economy and the local champion of this project, who was scheduled to present the results of the business survey to the task force. Pat Dusenbury, LGRP lead economic development consultant, had written up the discussion of critical issues—with recommendations—from the last meeting as requested by the Task Force. That information was shared with the Mayor at a brief meeting to update him on the topic and other LGRP work in Varazdin. Instead of a meeting of the full Task Force, the LGRP scheduled an informal lunch for September 13 with the Task Force members who wanted to talk about economic development critical issues, which had been translated and disseminated.

After the luncheon was scheduled, the President of the Chamber returned, ready to present the results of the business survey. There was limited discussion of the critical issues. The Task Force members scheduled a meeting for September 26 where they:

- Selected critical issues
- Divided into working groups
- Began work on action plans to implement projects related to critical issues

Despite scheduling problems with leadership from the City and the Chamber, this is a committed and enthusiastic task force. Some 30 Task Force members and the press attended the luncheon. Mr. Cesarec of the local Chamber of Economy has volunteered to gather a list of E-mail addresses for the Task Force members and to help maintain momentum by sending them updates and reminders between meetings. The LGRP provides content.

The Task Force meeting scheduled for early September took place at the end of the month. The goal of the workshop was to define two or three critical issues, divide the task force into subgroups, present a methodology to initiate a “problem tree”, and start work to identify interventions (projects) for each critical issue. Before the Task Force began work, members raised the issue of the City of Varazdin’s involvement in the process. The Task Force members were firm in their opinion that the lack of City involvement (especially by the Mayor) would make the final outcome of the Task Force difficult to implement. In this regard, Task Force members expressed their interest in the successful completion of the process and recognized its importance to development of the community. However, they demanded that the City of Varazdin make a greater effort to participate the process. In response to this request, Maris Mikelsons made several trips to Varazdin to ask the newly elected Mayor to lend greater participation in the economic development strategic plan process.

One Stop Shop—Visnja Mrakovic, working with Hrvoje Bertovic, explored ways to consolidate information related to economic development for local governments in Croatia. This LGRP team produced a draft report on the different procedures that local governments control in relation to economic development. The research involved a review of relevant laws/regulations related to the permitting process, land use, and physical planning for local governments. Further, the LGRP staff explored methods to incorporate information on local procedures of investment as part of the information management system developed in Osijek and Crikvenica.



Citizen Participation—At the request of the City, the LGRP designed a public participation component that would help the city better communicate with its citizens. Krzysztof Chmura is leading this activity for the LGRP with two-prong approach. One path would introduce new public participation tools to the city such neighborhood meetings, general opinion survey and other techniques that lend to citizen involvement. The second path would introduce a comprehensive public participation plan to the City of Rijeka through the establishment of a Task Force. The LGRP aims are to institutionalize public participation as the mode of operation for all city activities.

At the request of the Chief-of-Staff of the City of Rijeka, Ms. Ksenija Cule, the public participation component of the LGRP was initiated. During the month of July, the LGRP staff and City of Rijeka implemented the first phase of public participation activity intended to gather information on public service delivery. Victor Welksberg, consultant to the LGRP, working with City officials designed a public opinion survey questionnaire. Additionally, the local firm PULS was hired to implement the survey in Rijeka. LGRP staff/consultants working with PULS and City officials designed the first draft of the survey questionnaire to be tested in September. This survey methodology of gauging public opinion of variety of topics related to public service delivery will be used by the City to make resource allocation decisions. This type of survey for a local government is the first of its kind in Croatia.

In July, a public participation workshop was held in the City of Rijeka Town Hall. About 40 participants from the city, neighborhood councils, and local NGOs attended the workshop. The purpose of the survey was to introduce new methodologies in the area of public participation as a management tool for local governments. Krzysztof Chmura introduced a variety of techniques to improve citizen participation, including public surveys, focus groups, public hearings, open council meetings, local partnership programs, rules for cooperation with NGOs, information centers, and press releases. At the conclusion of the seminar, participants were asked to volunteer for the creation of public participation task force in Rijeka. A total of 15 persons committed themselves to the task force. Additional LGRP work with the Task Force will take place in October.

Because the economic development strategy process is community-based, it is in itself a form of public participation. The link between the LGRP public participation and economic development components has been further strengthened by the first community meeting in Rijeka, which focused on an economic development issue, re-use of the bankrupt paper mill property at the request of the City. However, LGRP decided to drop this object as a basis for any further work in the area of public participation.

Financial Management Systems—The LGRP financial management team held the first of a series of workshops for members of the financial management task forces created in each demonstration site. This workshop was held over a two-day period (July 12 and 13) in Zagreb and included representatives from the Croatian Bank for Reconstruction and Development, Zagrebacka banka and Economics Institute. The agenda for this workshop was divided into two parts. The first part addressed the structure of the financial analysis model (FAM) and the second

part to inform and educate the members of on the different types of finance management practices scheduled for the upcoming training workshops by the LGRP. The outcome of the first workshop yielded the following:

- Objectives of cooperation between the LGRP and Demonstration sites in the area of finance
- Initial FAM implementation tasks
- Maintenance of financial analysis model database
- Financial analysis model related software training
- Content of upcoming financial management workshops

Below is a description of each outcome.

Objectives of Cooperation—As highlighted at the seminar, the collaboration between the demonstration sites and the LGRP has two major objectives:

- **Firstly**—to support implementation of the FAM and its immediate use in conjunction with mandatory municipal financial management responsibilities
- **Secondly** in conjunction with the FAM, to introduce improved financial practices and new staff financial management skills. By improved practices we include:
 - More effective internal procedures for performing budgeting, treasury, and other financial functions
 - Improved use of financial information for informing the mayor, other senior officials, and the municipal council about municipal financial conditions
 - Improved procedures for involving citizens and the local business community in budgetary policy decisions and informing them of local financial conditions
 - Improved documents for communicating with banks, international donors, and other external lending sources
 - Improved capital investment planning (CIP)

Initial FAM Tasks—Recently, LGRP staff began work with demonstration site staff to assemble and input the FAM database. It is a major task that requires diverting the staff of a number of city departments and budget institutions away from other duties. However, this investment of time will pay immediate dividends in terms of both the speed and accuracy with which cities prepare financial reports and analyze financial data.

Work is still continuing on programming the output side of the FAM and completing the additional modules (asset management, credit analysis, and city owned enterprises) for the FAM.



Completion of this work has been complicated by the pending substitution of IMF accounting classifications for the Book One and Book Two accounting codes. The LGRP will complete the necessary programming by end of the year, including conversion of FAM reports to the new IMF codes. However, this will not delay the use of the FAM in any city since these modules and accounting codes information can be added a later date without disrupting work. As part of this work, the LGRP will build into the program a conversion of historical information from the old classifications to the new to allow comparison with prior budget years and satisfy the reporting requirements for the MoF.

The current version of the FAM can be used for the preparation and presentation of the 2002 budget. Work on FAM outputs that are not required for budget preparation may continue somewhat longer into the autumn.

Maintenance of FAM Database—Over the next year that the use of the FAM in demonstration sites will become institutionalized. This will require attention to developing systems for updating and maintaining the FAM data base, including:

- Clear schedules and assignments for updating data for each component of the database. This in turn requires cooperation from all city departments, budget institutions, and communal enterprises.
- Responsibility and procedures for quality control of the data.
- Responsibility for software support and staff training. Training will be an on-going need as, over time, inevitable turnover occurs in the staff that are responsible for inputting data.

FAM related software and training—FAM has been designed to be user friendly so that a person with only basic computer skills in utilizing a personal computer with Microsoft Windows operating software is required. In planning for software training, it's useful to distinguish the following:

- Training for staff assigned to input data. All such staff will need some very simple orientation to entering data on the relevant Input screens.
- Training for financial specialists responsible for generating FAM outputs. This person or persons should be able to:
 - Manage the staff inputting data and maintain quality control over their work
 - Understand the purpose of each output table
 - Use FAM to generate and customize reports for various purposes, including use of ability to translate data into graphics for report and presentation purposes

- Use tools in FAM for various analytic purposes: such as revenue projection or evaluating finance options for credits
- Training for senior officials in demonstration sites who will be the consumers and users of FAM outputs. Such officials do not actually have to learn how to use the software itself or to have computer skills at all. However, through the LGRP workshops and other training, they should come to understand FAM's capability to provide useful information for their decision-making purposes and to be able to request specific outputs and analyses from technical staff.

As discussed at the financial management systems workshop, over the next year the LGRP will bring finance directors and members of the demonstration site finance Task Force together on a periodic basis for training workshops. The workshops would be used both to:

- Work in parallel on introducing improved practices in their communities and sharing progress, problems, lessons learned
- Share international experience and introduce new concepts and skills
- Develop case materials and training materials to take FAM and financial management concepts to other Croatian municipalities

In regard to what was collectively decided at the workshop, the LGRP planned and implemented another workshop (September 25 and 26) with Win Evans (consultant to UI). The first day of this workshop was held in Crikvenica for all members of the finance task forces in each demonstration site (about 17 persons) while the second day of the workshop was held in Rijeka (computer lab). Marina Kristek and Damir Cvijanovic, LGRP finance experts, conducted the presentation oriented to the FAM during the second day of the workshop. During the second day of the workshop, LGRP staff distributed a draft technical manual for the FAM. The Manual contains information on the use of the budget module of the FAM along with comparisons of the old functional classification codes and the new codes proposed by the MoF and descriptions of each functional classification codes (translated by the LGRP from IMF material).

Below is a summary of the agenda for the workshop.

Topic 1—Budget Preparation and Adoption

- How to schedule a public hearing on the budget prior to its adoption. The FAM would be used to prepare a Budget-in-Brief with graphics that help make local budget policies clearer to council members and the average citizen.



Topic 2—Use of the FAM

- How the FAM could be used to provide more informative budget reports on budget execution in 2002 and provides data for preparation of Budget-in-Brief documents.
- At the conclusion of this workshop, the financial management task forces of LGRP demonstration sites along with the LGRP finance team decided upon the following series of workshops:
- At least two additional workshops through the end of the year on the use of the FAM modules related to credit analysis, asset management and city-owned enterprises. These modules will be developed by the end of the year and will finalize the FAM.
- Consideration will be given to introducing Program Budgeting concepts on a pilot basis during 2002 in one city department or budget institution. Program budgeting concepts will be explained at a workshop to take place early in 2002. Additionally, the LGRP will hold one workshop on local government evaluation of creditworthiness utilizing the FAM. This workshop will also be conducted in early 2002.
- Introduction of Five Year CIP. The City would commit to preparing a CIP in 2003. (Note: The MoF is requiring cities to separate their capital and operating expenditures in 2003 budgets).
- Packaging investment projects. Preparation of one to three major investments projects for financing in 2002. Demonstration cities will identify one or two investment projects for which it hopes to borrow money during 2002. LGRP staff will work with city staff during the year 2002 to use the capabilities of FAM as a tool in evaluating financing options and in preparing loan applications. A separate workshop might not be necessary for this task.

Work with the Ministry of Finance—LGRP work with the MoF is focused on operational issues related to development of the FAM. During July, LGRP staff met with U.S. Treasury advisor to the MoF, Jim Ruth, to discuss the implementation of a new Chart of Accounts in Croatia. Subsequent to these meetings, Marina Kristek, LGRP finance expert developed a coding system that would allow the merging of the old (existing) Chart of Accounts with the new proposed Chart of Accounts (as it relates to local government accounting/finance). This time-consuming work was completed in August and would serve as the basis for classifying and linking local government expenditures in the FAM from one to the next.

Additionally, the LGRP staff worked with MoF staff (Local Government Budget Division) to inform them of the development and use of the FAM. This work was performed to ensure the reporting requirements of local governments to the MoF would comply with existing laws and regulations. The Ministry is keenly interested in the application of the FAM in all local

governments and requests that the LGRP informs them of the structure and outputs of the FAM as it relates to reporting requirements.

Decentralization of Primary Education—At the request of the City of Rijeka and Crikvenica, LGRP assisted these cities with preparing financial data to absorb the newly devolved functions of maintaining primary schools. In Rijeka, LGRP staff collected budgetary data from 25 elementary schools and together with city staff, input these data to the FAM. Similarly, in Crikvenica data collection and FAM input took place at two primary schools. By assisting these cities with their new financial responsibilities, they now can better plan their budgets for 2002 (with a deadline of December 15) to take into consideration expenditures on primary education facilities.

Asset Management—During the reporting quarter, the LGRP worked with the recommendations found in the LGRP produced asset management report for the City of Varazdin to implement concrete processes/steps to promote the asset management model. In this regard, the LGRP working with City officials created a series of action plans to address each of the recommendations complete with resource allocation, timetable, control and risk assessment for each recommendation. The final action plans were presented to the City for approval and discussed with Mayor of Varazdin. In turn, the Mayor created an asset management task force for the City to lead the implementation of the action plans. Additionally, Hrvoje Bertovic prepared a conceptual asset management model that contained an integrated strategic approach to asset management that could be applied in any local government in Croatia.

Over the reporting period, LGRP staff cooperated with City of Varazdin staff to create an inventory of city owned assets, review different types of properties, implement a method and organization of data gathering within the City, and conduct a preliminary analysis and identification of financial gains in improving management practices.

Additionally, Olga Kagonova, working with Hrvoje Bertovic, prepared a draft asset management ordinance/statute at the request of the City of Varazdin. The LGRP asset management team reviewed a wide range of legislation concerning ownership issues, cadastre, planning, lease of business premises, housing, and communal economy to ensure the draft asset management ordinance complies with existing laws/regulations. The draft asset management ordinance contains explicit recommendations for the implementation of a strategic approach to asset management for the City. The City of Varazdin plans to present the draft asset management ordinance to the city council in the fall and has requested the LGRP participate in this presentation.

National Policy Initiative—The Government of Croatia is in the process of re-examining the overall legal framework for local self-governance in the context of moving towards an enabling framework for decentralization and intergovernmental relations consistent with EU standards and practice. In Croatia, as in many other transition countries, the creation of a non-political and permanent local public administration is necessary in order to move away from a system in which public employment was not based on merit but on political or other



reasons, and dismissals were not based on objective professional grounds. The draft *Law on Local Civil Servants and Laborers and Law on Obligations and Rights of Public Officials in Local and Regional Self-Government* represents a very useful starting point for developing an effective legal framework for the local governments of Croatia, enabling those governments to better serve citizens. At the request of the Ministry of Justice/Administration/Local Government, the LGRP submitted comments to these two new laws over the reporting period.

Following the meeting of the Local Government Advisory Committee (LGAC), Juliana Pigey and Maris Mikelsons met individually with members of the Committee to discuss their information/analysis needs. The most discussed issue among members of the LGAC was territorial reform. The LGRP assembled a team of experts to compile a study that will address issues related to territorial reform including ones that relate to inter-government public service delivery. The study team is comprised of five individuals: Juliana Pigey (UI staff), Inga Vilka (consultant and director of the Local Government Academy in Latvia), Damir Cvijanovic (LGRP staff), Jelena Ladavac (consultant from the Economics Institute), and Maris Mikelsons. The team drafted an outline for the study and began preliminary data collection activities.

UI/LGRP received a request from the Ministry of Public Works to put forth a candidate from the ranks of the LGRP staff to serve on the newly created task force to write a new Law on Communal Economy. This request was followed by the nomination of Hrvoje Bertovic, LGRP staff, as the candidate to serve on this task force. The Ministry expects the task force to meet on regular basis through the end of the year and draft a new Law on Communal Economy by the beginning of the new year.

The Croatian Law Center's (CLC's) "Decentralization Project" submitted a written request to the LGRP to collaborate on the establishment of field offices. The field offices would promote information exchange among local governments and the two projects, as well as in assisting with dissemination of information to local governments. During the reporting period, CLC representatives, LGRP staff, and USAID met to discuss the proposal. The LGRP submitted a counterproposal that would call upon the CLC project to collaborate with both the LGRP and the Association of Cities and Municipalities to issue the Local Government Handbook and organize a seminar series for newly elected local government officials in the spring of 2002.

The LGRP mandate to build the capacity of the Association of Cities and Municipalities was advanced by the LGRP agreeing to collaborate with the Association on the issuance of a Local Government Handbook and to conduct a series of seminars for newly elected local government officials. The Handbook will contain ten chapters that deal with issues related to assuming local governance. At the request of USAID, an additional chapter on local government ethnic issues was added to the Handbook contents. The Association plans on asking eight member of local governments to write the chapters with the LGRP to add additional chapters on public administration best practices. The seminar series is scheduled to take place in the spring of 2002 and organized around the ten chapters in the Handbook. Given sufficient resources, the seminar series will include newly elected mayors and presidents of city councils from all regions in Croatia.

Significant Findings and Delays

Findings of individual studies and meetings are outlined in the program activities section above. Some delays were encountered due to the reconstitution of demonstration site local governments (hiring of new department heads and other staff) that took place after the spring elections.

Work Planned for the Next Reporting Period

UI plans to submit a revised work plan that will detail year-two activities of the project, including a dissemination/replication strategy.

Specific Action Requested

None—USAID/Croatia issued the revised scope of work for the project and UI responded by submitting a revised budget for the project.

Up-To-Date Schedule of Work

Work has been somewhat delayed by the process to constitute new executive bodies in demonstration sites (hiring of new department heads and others administrative personnel). A revised work plan will be submitted to USAID/Croatia during the next reporting period.